REPORT REFERENCE NO.	**DSFRA/16/2**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (BUDGET MEETING)**
DATE OF MEETING	**19 FEBRUARY 2016**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2016-17 TO 2018-19**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***(a). that, in accordance with the recommendations made by the Resources Committee at its meeting on 10 February 2016 (Minute RC/12 refers):*** ***(i). the draft Capital Programme 2016-17 to 2018-19 as detailed in the report and summarised at Appendix A to this report;*** ***(ii). the associated Prudential Indicators as summarised at Appendix B be approved; and*** ***(iii). that a minimum revenue contribution of £2.769m be made from the 2016-17 revenue budget towards financing of the capital 2016-17 to 2018-19 capital programme;*** ***(b). that, pending the decision of the 2016-17 revenue budget and associated council tax levels, a further revenue contribution of £0.904m be made from the 2016-17 revenue budget towards financing of the capital 2016-17 to 2018-19 capital programme (also as recommended by the Resources Committee by virtue of recommending Option B [1.99% council tax increase] in relation to the proposed 2016-17 revenue budget (Minute RC/13 refers);*** ***(c). that the forecast impact of the proposed Capital Programme (from 2019-20 onwards) on the 5% debt ratio Prudential Indicator, as indicated in this report, be noted.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2016-17 to 2018-19 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. All aspects of the capital requirement have been considered and the programme has been constructed based on the principle that debt charges emanating from external borrowing are kept within the 5% Prudential Indicator limit (debt charges as a percentage of the Revenue Budget) set by the Authority.

	The Authority has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget and has supported the Treasurer's recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. Elsewhere on the agenda for this meeting is a separate report "2016-17 Revenue Budget and Council Tax Levels" which makes provision for a revenue contribution towards capital of £2.769m; potentially rising to £3.673m should the Authority be minded to approve Option B within that report (1.99% increase in Council Tax). To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2018-19 based upon indicative capital programme levels for the years 2019-20 to 2021-22
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	The contents of this report are considered compatible with existing human rights and equalities legislation.
APPENDICES	A. Summary of Proposed Capital Programme 2016-17 to 2018-19 (and indicative Capital Programme 2019-20 to 2021-22). B. Prudential Indicators 2016-17 to 2018-19 (and indicative Prudential Indicators 2019-20 to 2021-22).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 Each year the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. In constructing the programme, considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously agreed by the Authority. However, the capital investment demands of the Service, coupled with the impact that a reducing revenue base has on the Authority's ability to borrow whilst maintaining debt charge below the 5% ceiling, has made the allocation of funds between the main capital cost centres of fleet and estates increasingly difficult.

1.2 As part of the provisional settlement announcement on 17 December 2015, it was confirmed that there will be no grant for Capital funding available to fire authorities in the four years to 2019-20.

1.4 Up until 2013-14, Devon and Somerset Fire and Rescue Authority (the Authority) capital funds have predominantly been directed towards specific estates projects culminating in the Training Academy build at Exeter Airport. This reduced the available budget for the vehicle replacement programme, thereby creating a significant backlog. From 2013-14 the estates programme was significantly reduced to accommodate the reinstatement of the fleet programme and to fund the introduction of smaller type appliances into the Service as soon as possible.

1.5 Given the loss of government grant funding in 2015-16 (from £2.0m in 2011-12) and to support the need to keep external borrowing within affordable limits, it is proposed that a revenue contribution be made from the 2016-17 revenue budget to support capital spending.

1.6 The Authority has set a strategy to reduce reliance on external borrowing and therefore the proposed Capital Programme 2016-17 to 2018-19 and indicative Capital Programme 2019-20 to 2021-22 have been produced on the basis that no new borrowing will occur in the 6 year period.

1.7 In order to support this strategy, it is recommended that members approve a minimum revenue contribution to Capital of £2.769m in 2016-17 and that a minimum of £2m is included as a direct revenue contribution to Capital in the base budget for future years.

1.8 This report is, in essence, the same as that considered by the Resources Committee at its budget meeting on 10 February 2016. The Committee resolved to commend to this Authority approval of the capital programme and associated prudential indicators as set out in this report and summarised at Appendices A to B of this report, a minimum contribution in 2016-17 from revenue to capital of £2.769m and (by virtue of the recommendation of a 1.99% council tax increase in relation to the revenue budget for 2016-17) a further revenue contribution of £0.904m, £0.625m of which will be transferred directly to an Earmarked Reserve to fund Capital in future years. (Minutes RC/12 and RC/13 refer). It should be noted that, since reporting to Resources Committee on 10 February, the figures for Revenue Contribution to Capital and the transfer to Earmarked Reserves have been revised to reflect updated Council Tax and Business Rates income from billing authorities, as advised verbally at that meeting.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 In 2008, a report (8 December 2008 - RC/08/10) “Affordable Capital Investment Plans for 2009-2010 to 2011-12” was submitted to the Resources Committee. This report was regarding the instigation of a principle that debt charges be kept below 5% of the total revenue budget (Minute *RC/15 refers). This may well be breached in future years for two reasons:

- as a consequence of the need for additional capital investment, and;
- as a result of future revenue budgets being lower than originally forecast as a consequence of the government austerity measures - now anticipated to continue to at least 2019-20.

This, along with the removal of government grant, has a direct impact on the Capital Programme going forward.

2.2 The tests of affordability are measured by compliance with the Chartered Institute of Public Financial Accountants (CIPFA) Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.3 The issue of affordable capital spending has been the subject of several reports to both this Committee and the Authority in recent years. The most recent report was considered by the Authority on 20 February 2015 (Minute DSFRA/45 refers) when setting the existing capital programme.

2.4 The proposed programme and funding, as contained in this report, decreases the external borrowing requirement to £25.5m by 2018-19, and ensures that the debt ratio is maintained below 5% (forecast to be 4.10%). This compares to a current external borrowing of £25.8m as at 31 March 2016. Looking further ahead the external borrowing requirement is forecast to reduce to £24.8m by 2021-22.

2.5 The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has reduced the spend on the appliance replacement programme to support estates projects and has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.

2.6 With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that a strategy of long term affordability will be followed, with the indicative programme showing that no new external borrowing will be required over the 6 year period to 2021-22.

2.7 Due to current interest rates it is not economically viable for the Authority to repay loans early. This means that whilst no new borrowing will be required, existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed with a view to early repayment if this option becomes more affordable.

2.8 Elsewhere on the agenda for this meeting is a separate report “2016-17 Revenue Budget and Council Tax Levels” which makes provision for a revenue contribution towards capital of £2.769m; potentially rising to £3.673m should the Authority be minded to approve Option B within that report (1.99% increase in Council Tax).

2.9 It is proposed that the Capital reserve is used to smooth funding requirements for the Capital programme and therefore, because only £3.048m revenue contribution to capital is required in 2016-17 to meet the programme, the difference of £0.625m from the 1.99% increase in Council Tax will be budgeted as a transfer to the Capital Reserve.

2.10 It should also be noted that in order that the programme can be achieved without the need to increase borrowing then a revenue contribution to Capital will be required to be built into revenue base budget beyond 2016-17. The programme has been constructed to include a £2m base contribution from 2017-18. This figure will need to reviewed annually as part of the budget setting process.

3. ESTATES

3.1 After a period of significant investment, the Estates programme was reduced from 2013-14 to accommodate other capital programmes. Now, with the twin challenges of the removal of the capital grant and a property portfolio that continues to mature, it has been identified that an alternative strategy to providing a fit for purpose Estate is required.

3.2 An Estates Development review was therefore commissioned and is presently in its early stages to identify any ‘latent’ value or development opportunities that can be released from our existing portfolio either through disposal of a site, development of a site or moving a site to a new location. Early indications are that some opportunities may exist although it is presently anticipated that the total capital receipts that may be generated would be required to release the opportunity. However, it is anticipated that the outcome of any development would result in new or improved assets that meet modern standards, are far more efficient in their layout and operation and are consequently lower in cost to maintain.

3.3 Whilst the outcome of that review is awaited, a reduced programme of expenditure has been implemented on sites that may be within the scope of possible opportunities for development. As such some sites are planned to receive only minor works whilst their future is determined and this is reflected in the programme with no major projects planned to commence in 2016-17.

3.4 However, feasibility studies will be undertaken where required on sites identified as having development potential (possibly with other Blue Light partners) or where there is a new requirement such as at the new towns of both Cranbrook and Sherford.

3.5 It should be noted that the increasing co-operation between Bluelight partners in the region may also generate other co-location or development opportunities and it is anticipated that 2016-17 will be the period where much of the feasibility planning on these will be undertaken with subsequent years seeing a return of significant capital demands.

4. **OPERATIONAL ASSETS**

Vehicle Replacements/Equipment

4.1 The Authority has the second largest fleet of all fire and rescue services in England. In recent years the budget had been reduced in support of the Estates programme, whilst evaluating new vehicles, creating a significant backlog in vehicle replacement. The programme was reinstated in 2014-15 providing the necessary funding for the investment in the Light Rescue Pump programme, which will be largely completed in 2016-17.

4.2 During the course of this year (2015-16) the Service commenced pilots to evaluate a range of new vehicles, engaging and involving staff and trade unions in the process and this work will directly inform future capital requirements for our fleet. These pilots were based around the principle of matching ‘resources to risk’ and included assessment of the Rapid Intervention Vehicle concept, which is integral to the future fleet arrangements within Tier 1. Subject to the outcome of the pilots, it is proposed to commence procurement of the preferred solution in 2016-17 with a view to introducing this vehicle in 2017-18, thereby reducing the future fleet costs further.

4.3 The Light Rescue Pump programme, together with the Rapid Intervention Vehicle programme, remains the bedrock of the Authority’s future fleet replacement strategy for introducing ‘Tiered Response’; meeting future service delivery arrangements with more cost effective vehicles, improved service to local communities, along firefighter safety. The capital programme has been adjusted to support delivery of this programmes.

Breathing Apparatus Replacement Programme

4.4 The harmonisation of breathing apparatus equipment between Somerset (was Scott Sabre) and Devon (InterSpiro) has now been completed and the InterSpiro sets are now used across the Service.

4.5 A Respiratory Protection strategy is now being developed that will consider all aspects of respiratory protection for operational staff. This will also consider the use of telemetry. Previously, it was estimated that an amount of £1.4m would be required for the Breathing Apparatus harmonisation/replacement but this figure has been revised to £0.884m in the light of the latest information on indicative costs.

5. **REVISED CAPITAL PROGRAMME FOR 2016-17 to 2018-19**

5.1 Appendix A provides an analysis of the proposed programme for the three years 2016-17 to 2018-19 as contained in this report. This programme represents a net decrease in overall spending of £2.5m over the previously agreed programme as illustrated in Figure 1 overleaf

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2015-16	2.1	6.1	8.2
2016-17	2.9	4.5	7.4
2017-18 (provisional)	2.0	3.3	5.3
2018-19 (provisional)	1.8	1.8	3.6
Total 2015-16 to 2018-19	8.8	15.7	24.5
PROPOSED PROGRAMME			
2015-16 (forecast spending)	1.4	6.0	7.5
2016-17	1.8	3.3	5.1
2017-18 (provisional)	2.4	2.6	5.0
2018-19 (provisional)	1.5	3.0	4.5
Total 2015-16 to 2018-19	7.1	14.9	22.0
PROPOSED CHANGE	**(1.7)**	**(0.8)**	**(2.5)**

Figure 1

5.2 The decrease of £1.7m spending for estates relates to the current strategic review of the estate requirement and therefore the postponement of any major projects until completed. If major projects are identified through this process, the Authority will be asked to consider an amendment to the Capital Programme at that point

5.3 The fleet and equipment replacement programme has decreased by £0.8m as a result of the strategy to match resources to risk and the resultant use of lighter vehicles throughout Devon & Somerset, pending the outcome of the pilot for Rapid Intervention Vehicles.

5.4 Appendix A also provides indicative capital requirements beyond 2018-19 to 2021-22. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2. These figures, which already include the impact of the proposed revenue contribution of a minimum of £2.769m from the 2016-17 revenue budget, on the basis that the proposal is agreed, are reflected in the draft 2016-17 revenue budget and Medium Term Financial Plan (MTFP) forecasts.

Summary of Estimated Capital Financing Costs

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	3.974	3.721	3.646	3.582	3.614	3.609
Change over previous year		(0.252)	(0.075)	(0.064)	0.032	(0.006)
Debt ratio	4.19%	4.19%	4.10%	4.10%	4.09%	4.06%

Figure 2

5.5 The forecast figures for external debt and debt charges beyond 2018-19 are based upon the indicative programmes as included in Appendix A for the years 2019-20 to 2021-22. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

6. PRUDENTIAL INDICATORS

6.1 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have reduced from current levels of £25.8m to £24.8m (including impact of proposed revenue contributions) by 2021. Figure 3 below provides further analysis of forecast borrowing for each year and a comparison borrowing requirement if the strategy to implement revenue contributions is not implemented.

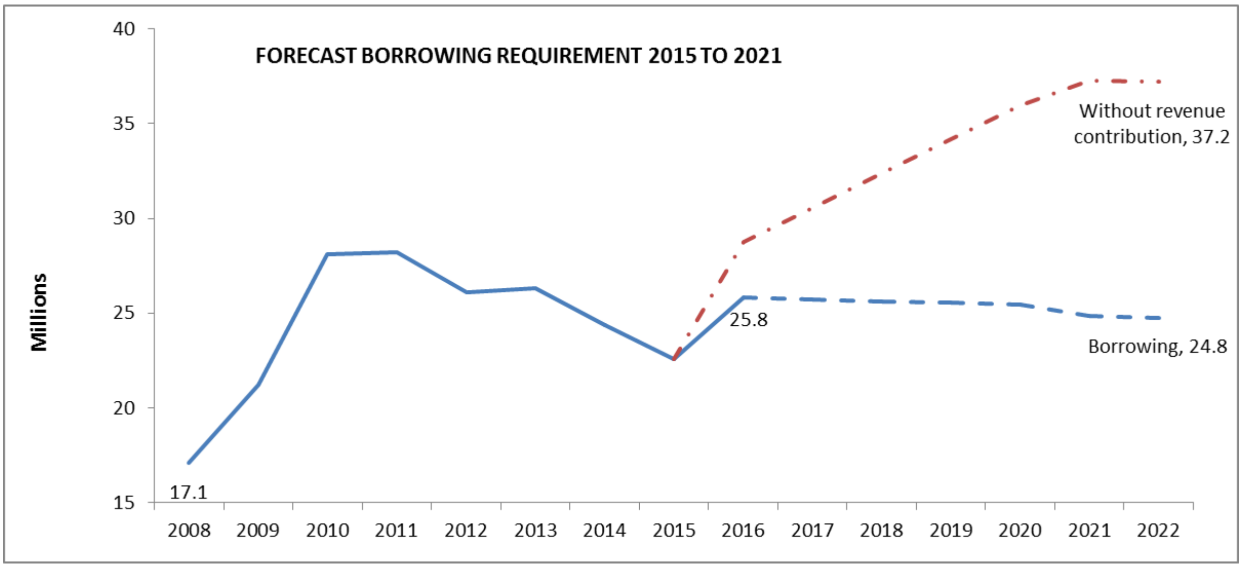

Figure 3

6.2 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2021-22, this will only be possible with regular revenue contributions to the capital programme (both from base budget and in year underspends) to maintain an affordable and sustainable Capital Programme.

7. CONCLUSION

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced, and also keeping debt charges within the 5% limit.

7.2 Given the government decision to withdraw any direct grant funding from 2016-17 (£2.0m for this Authority in 2011-12) the capital programme has been constructed on the basis that the revenue budget includes a base contribution to capital which if approved will avoid the need for any new borrowing over the next 6 years. However, the programme proposed in this report does not commit any spending beyond 2018-19. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval.

LEE HOWELL	**KEVIN WOODWARD**
Chef Fire Officer	**Treasurer**

APPENDIX A TO REPORT DSFRA/16/2

Capital Programme 2016/17 to 2021/22

2015/16 £000 Budget	2015/16 £000 Forecast Outturn	Item	PROJECT	2016/17 £000 Budget	2017/18 £000 Budget	2018/19 £000 Budget	2019/20 £000 Indicative Budget	2020/21 £000 Indicative Budget	2021/22 £000 Indicative Budget
			Estate Development						
421	421	1	Major Projects	0	0	0	0	0	0
1,620	1,015	2	Minor improvements & structural maintenance	1,768	2,412	1,505	1,115	785	1,750
2,041	**1,436**		**Estates Sub Total**	**1,768**	**2,412**	**1,505**	**1,115**	**785**	**1,750**
			Fleet & Equipment						
4,502	4,502	3	Appliance replacement	1,350	2,220	2,220	2,530	2,740	2,740
0	0	4	Community Fire Safety	0	0	0	0	0	0
344	219	5	Specialist Operational Vehicles	125	0	200	200	0	0
953	953	6	Equipment	1,019	351	570	210	200	200
245	251	7	ICT Department	800	0	0	0	0	0
93	93	8	Water Rescue Boats	0	0	0	0	0	0
6,137	**6,018**		**Fleet & Equipment Sub Total**	**3,294**	**2,571**	**2,990**	**2,940**	**2,940**	**2,940**
8,178	**7,454**		**Overall Capital Totals**	**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**
			Programme funding - 1.99% increase in CT						
1,047	463		Earmarked Reserves:	47	1,094	680	212	388	860
2,134	1,994		Revenue funds:	3,048	2,000	2,000	2,000	2,000	2,000
			Capital Receipts:	0	0	0	0	0	0
4,997	4,997		Application of existing borrowing	1,967	1,889	1,815	1,843	1,337	1,830
8,178	**7,454**		**Total Funding**	**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**
			Programme funding - 0% increase						
1,047	463		Earmarked Reserves:	688	1,094	680	212	388	860
2,134	1,994		Revenue funds:	2,407	2,000	2,000	2,000	2,000	2,000
			Capital Receipts:			0			
4,997	4,997		Application of existing borrowing	1,967	1,889	1,815	1,843	1,337	1,830
8,178	**7,454**			**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**

APPENDIX B TO REPORT DSFRA/16/2

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2017/18 to 2020/21		
	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Capital Expenditure						
Non - HRA	5.062	4.983	4.495	4.055	3.725	4.690
HRA (applies only to housing authorities	-	-	-	-	-	-
Total	5.062	4.983	4.495	4.055	3.725	4.690
Ratio of financing costs to net revenue stream						
Non - HRA	4.19%	4.19%	4.10%	4.10%	4.09%	4.06%
HRA (applies only to housing authorities	-	-	-	-	-	-
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,724	25,630	25,537	25,444	24,851	24,757
HRA (applies only to housing authorities	-	-	-	-	-	-
Other long term liabilities	1,374	1,299	1,209	1,112	1,010	907
Total	27,098	26,929	26,747	26,556	25,861	25,665
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(162)	(169)	(183)	(191)	(695)	(197)
HRA (applies only to housing authorities	-	-	-	-	-	-
Total	(162)	(169)	(183)	(191)	(695)	(197)
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	(£0.04)	(£0.26)	(£1.07)	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,824	26,726	26,128	26,030	29,044	31,243
Other long term liabilities	1,278	1,177	1,071	963	841	701
Total	28,101	27,902	27,199	26,993	29,885	31,944
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,537	25,444	24,851	24,757	27,802	30,005
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	28,592	30,661
Maximum Principal Sums Invested over 364 Days						
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000	5,000